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SUBJECT: KALUGA REGIONAL GOVERNMENT SPENDS ON DEVELOPMENT  
AT EXPENSE OF SOCIAL AID

¶1. (SBU) Summary: During a recent visit to the ruling United Russia-dominated Kaluga Region, local government officials took great pains to portray it as one of the most attractive regions in Russia for foreign investment and, despite the current economic crisis, one that is thriving with virtually no unemployment. Other non-government and opposition contacts painted a more somber economic picture, with cuts in social services required to continue funding massive economic development projects. The region does have several successful programs related to human rights, teen participation in government, and adoptions, indications of a stable society. End Summary.

#### Kaluga Poised for Economic Success

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¶2. (SBU) During a May 27-28 visit to Kaluga Oblast, government officials portrayed the region as one of the most attractive in Russia for foreign investment. The region earned the title, "The Cradle of Space Exploration" because of its association with Soviet rocket science pioneer Konstantin Tsiolkovsky, who conducted his modern space research in Kaluga. In recent years, however, Kaluga has evolved into an important Russian automotive industry and manufacturing center. Alluring tax benefits and regional government support have enabled foreign companies such as Volkswagen, Volvo, PSA Peugeot Citroen, Mitsubishi Motors, L'Oreal, General Electric, John Deere, and Samsung to locate production facilities there.

¶3. (SBU) Kaluga's Governor Anatolii Artamonov and Mayor Nikolay Iyubimov, both from Prime Minister Vladimir Putin's ruling United Russia party, had participated in a March 17 event in Moscow to promote foreign investment in the region. Russian Foreign Minister Sergei Lavrov described how recently the amount of direct foreign investment in the Kaluga Region reached over one billion dollars and stressed both Kaluga's great scientific potential and the federal development plan to become a regional nanotechnology center by 2015. The governor and mayor personally extended an invitation to us to visit Kaluga to witness its development successes.

#### Portraying Kaluga as a Model of Capitalism

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¶4. (SBU) On May 27, Kaluga Deputy Governor Maxim Akimov told us that the regional administration has built foreign investment portfolio of multiple agreements with foreign investors worth about four billion dollars and is in talks with new investors on projects worth almost the same amount. According to Akimov:

-- The Kaluga region ranks first in Russia's industrial output;

-- In 2008, the Kaluga region's growth rate was more than 30

percent compared to the national average of only 3.7 percent;

-- Companies project that in 2009 they will manufacture 2.2 million vehicles in Kaluga;

-- Partners from 90 countries trade with Kaluga;

-- Kaluga's main foreign trading partners are Germany, France, Sweden, Italy, Austria, the Czech Republic, Finland, the Netherlands, China, and Japan;

-- The Kaluga Region boasts a population of just over a million, with a high number of skilled workers;

-- There are 28 academies, universities, and institutes in the region, as well as more than 40 scientific institutes;

-- More than 4,000 students of higher educational establishments and more than 3,000 students of vocational schools graduate each year;

-- Unemployment is virtually non-existent as new jobs are constantly being added; and

-- Efficient railway lines link Kaluga to Moscow in only two and a half hours.

15. (SBU) In addition to investing in stand-alone companies, the Kaluga Regional government is focusing on the creation of a number of industrial parks to attract industry, technology, and tourism. The region's permanent representation in Moscow acts almost like an embassy, aggressively promoting

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cooperation with foreign trade organizations and companies. The Kaluga Regional government assists by investing a portion (generally through "Vneshekonombank" State Corporation), while the private investors pay the remainder. In this way, the government essentially acts as a public investment fund.

#### Scratching Beneath the Potemkin Village

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16. (SBU) On the second day of our trip, when local government handlers no longer controlled our schedule, opposition-oriented interlocutors painted a picture of ruling party domination and economic woes. Kaluga Regional Duma Deputy Sergey Fadeyev, from the opposition Yabloko party, told us that Kaluga's Regional Duma rarely votes against Governor Artamonov. The situation concerning Mayor Lyubimov is the same, with his control over the Kaluga City Duma absolute. Although KPRF, LDPR, Just Russia, and Yabloko hold a few seats in the Kaluga Regional Duma, Fadeyev told us that everyone other than Yabloko representatives nearly always votes the same as United Russia. Currently 20 Regional Duma members were elected from a party list and 20 were single-mandate. Fadeyev characterized the political situation in Kaluga as a "cooperative closed system," meaning that it is undemocratic.

17. (SBU) Despite the presence of many businesses in Kaluga, the economic crisis clearly is having a negative impact in the region. Fadeyev told us that the economic crisis has resulted in a shortage of tax revenues and that the government has had to obtain bank credits totaling ten percent of the Kaluga regional budget in order to finance the massive infrastructure investments rather than to supply social benefits. Fadeyev stated that social problems are developing as the regional government diverts money from education, social services, and healthcare to keep the factories operational. He was irritated that taxpayers will need to carry the burden of financing the interest on these loans.

18. (SBU) Fadeyev claimed that all businesses are linked to the government and are absolutely controlled by it. Although

the growth rate is officially high in Kaluga, he told us that the statistics are skewed since Volkswagen just started working in the region. Initially the plan was that, by 2013, the Kaluga regional government would see a return on these investments, but it is already clear that this timeframe is unrealistic, given the economic crisis. (Note: When we put in a request to the governor's staff to visit the VW plant and thereby observe the situation for ourselves, the staff refused permission stating that this "excursion" was not available. End Note.) Fadeyev said this is likely because production was recently cut and the work days went from six to only three or four. Finally, Fadeyev told us that the crisis has hit some areas in the region very hard; in Ludinova City in the Kaluga Region, for example, four out of the five main factories were recently closed.

¶9. (SBU) According to Fadeyev, there is "absolute censorship" of media in Kaluga. He told us how Nika, the government television channel, is allocated substantial state budget resources so the governor and mayor get all the media attention. It is also nearly impossible to find articles about opposition groups in local print media. Veronika Alekseyeva, an editor at Zmnya newspaper, told us that there are few journalists in the area and definitely no serious ones who would report on controversial issues since "people are afraid to complain." In her opinion, political apathy is pervasive in Kaluga -- the top priority is for the region to look good so it can attract foreign investment.

#### An Instrumental Human Rights Ombudsman

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¶10. (SBU) Despite the above-mentioned shortcomings, we were glad to see a number of development successes in Kaluga. Yuriy Zelnikov, Kaluga's Human Rights Commissioner, told us that he had received 2,571 complaints in 2008, focusing mainly on social problems including pensions and taxes, as well as immigration issues such as registration and passports. Zelnikov told us that immigrants were moving to Kaluga because it is easy to find work and to obtain Russian citizenship there. He showed us how he used federal grant money to produce a number of brochures and posters on women's rights, children's rights, and various human rights situations and that he widely distributes the literature. Zelnikov regularly updates an award-winning, comprehensive website: [www.ombudsman.kaluga.ru](http://www.ombudsman.kaluga.ru). He is also active in the

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schools where he recently launched a pilot program with six student Ombudsmen who promote human rights. If the program goes well, he plans to expand it throughout the region.

¶11. (SBU) Concerning opportunities for Kaluga's youth, three years ago, a pilot-program for youth government started in Kaluga. There are now replicas of this successful program in a number of other regions in Russia. In Kaluga, the youth government includes 20 members, while the youth parliament has 40 members. The participants of these programs are generally around 14 years-old. The youth government and parliament include separate political parties and committees, and they vote on issues. Roughly half of the student participants are women. The students work on a number of projects related to orphans, businesses, and banking, so they develop a variety of skills and connections with the broader public.

¶12. (SBU) Kaluga is also known for its model treatment of orphans. We visited the Azerovski Detski Dom which has 92 children, ages 3-18. After a choreographed talent show, Director Natalia Pinaeva described to us how every year the orphanage has temporarily placed 20 children with Russian foster families. Pinaeva said that the foster families receive money for the kids, and some families have taken in up to ten children. While overall the program appeared successful, Fadeyev told us that some families are reluctant to adopt the kids officially because they would no longer

receive the additional income.

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